

Message Text

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42

ACTION SS-25

INFO OCT-01 ISO-00 /026 W

----- 078877

R 051131Z JUN 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 4367

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 5572

EXDIS

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FROM GERLACH

FOR UNDERSECRETARY ROBINSON

E.O. 11652: GDS

TAGS: USEGJC EAID EGEN

SUBJECT: ASSISTANCE TO EGYPT: LETTER FROM PM SALIM TO MCNAMARA

REF: CAIRO 5568

1. QUOTED BELOW IS TEXT OF PROPOSED LETTER FROM PM SALIM TO IBRD
PRESIDENT MCNAMARA AS GIVEN TO AMBASSADOR BY BANK VP FOR MIDDLE
EAST BEN JENK (REFTEL).

2. LETTER IS SUBJECT TO MINOR MODIFICATION PRIOR TO ACTUAL SIGNING,
WHICH IS EXPECTED SHORTLY. BEN JENK WILL DISCUSS IT WITH POATS BY
TELEPHONE FROM GENEVA FOLLOWING HIS DEPARTURE FRIDAY, JUNE 6.
NON-ESSENTIAL WORDS OMITTED.

BEGIN TEXT:

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1. I HAVE RECENTLY HAD PLEASURE OF MEETING BEN JENK IN CAIRO AT CONCLUSION OF BANK'S CURRENT ANNUAL ECONOMIC MISSION TO EGYPT. I HAVE ALSO DISCUSSED WITH MISSION CURRENT ECONOMIC SITUATION AND THEY HAVE REPORTED TO ME THEIR PRELIMINARY FINDINGS.

2. MR. BEN JENK HAS CONVEYED YOUR CONTINUED INTEREST IN ECONOMIC POLICY MEASURES INITIATED AND CONTEMPLATED BY GOE. AS YOU KNOW, 1974 WAS A PARTICULARLY DIFFICULT YEAR FOR MOST DEVELOPING COUNTRIES, INCLUDING EGYPT. GOVERNMENT, HOWEVER, IS DETERMINED PROMOTE FURTHER LIBERALIZATION AND RATIONALIZATION OF ECONOMY. WE BELIEVE PROCESS OF LIBERALIZATION WOULD BENEFIT GREATLY FROM STRENGTHENING EXISTING RELATIONSHIP.

3. I WOULD LIKE TO REAFFIRM THAT OUR POLICY OBJECTIVES REMAIN UNCHANGED AND ARE AS SET OUT IN 1975 PLAN. SOME POLICY MEASURES HAVE ALREADY BEEN TAKEN TO STRENGTHEN PROCESS OF ECONOMIC LIBERALIZATION. WE ARE PRESENTLY CONTEMPLATING OTHER IMPORTANT STEPS. I SHOULD LIKE TO TAKE THIS OPPORTUNITY TO DISCUSS THESE AND RELATED ECONOMIC ISSUES WITH YOU IN SOME DETAIL.

4. I AM VERY CONSCIOUS OF IMPORTANCE OF IMPROVED ECONOMIC MANAGEMENT IF MY COUNTRY IS TO ACHIEVE ITS ECONOMIC POTENTIAL. AS A FIRST STEP TOWARD FURTHER IMPROVING COORDINATION BETWEEN MINISTRIES INVOLVED IN ECONOMIC POLICYMAKING, GOE INTENDS CREATE APPROPRIATE MACHINERY TO FACILITATE FLOW OF INFORMATION BETWEEN THEM. I INTEND SET UP SECRETARIAT COMPOSED OF MINISTERIAL REPRESENTATIVES AND ADDITIONAL EXPERTS ATTACHED TO SUPREME COMMITTEE FOR ECONOMIC AND POLITICAL PLANNING (SCEPP) AND CHAIRED BY A PERSON DESIGNATED BY ME. GOVERNMENT IS ALSO, THROUGH MINISTRY OF PLANNING, GIVING PRIORITY TO FREQUENT ASSESSMENTS OF ECONOMIC SITUATION AND MINISTRY WILL REVIEW IMPLEMENTATION OF POLICY MEASURES AND REPORT REGULARLY ON THESE TO COMMITTEE. SCEPP COMPRISES ALL MINISTERS WITH RESPONSIBILITIES RELATING TO ECONOMIC ACTIVITY AND MEETS AT LEAST ONCE EVERY TWO WEEKS TO REVIEW ECONOMIC POLICY. WE EXPECT THIS CLOSE MONITORING OF ECONOMIC SITUATION AT HIGHER LEVELS OF GOVERNMENT TO CONTINUE.

5. OUTLOOK FOR EGYPTIAN ECONOMY OVER MEDIUM AND LONG RUN IS FAVORABLE. SUEZ CANAL HAS BEEN OPENED AND WILL PROVIDE AN IMPORTANT SOURCE OF FOREIGN EXCHANGE. SIMILARLY, SUMED PIPELINE WILL

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START OPERATIONS IN 1976. OUTLOOK IN TOURISM AND PETROLEUM SECTORS IS ALSO EXTREMELY PROMISING AS POINTED OUT IN MOST RECENT BANK REPORT.

6. NEVERTHELESS, EGYPT IS PRESENTLY EXPERIENCING SERIOUS LIQUIDITY DIFFICULTIES ARISING PRIMARILY FROM OUR INCREASED IMPORT NEEDS IN ORDER FULLY UTILIZE EXISTING CAPACITY AND BUILD UP A REASONABLE LEVEL OF STOCKS (AT A TIME WHEN INTERNATIONAL PRICES HAVE INCREASED

SHARPLY). AS RESULT OF THIS AND ASSOCIATED SHORTFALL IN FOREIGN EXCHANGE AVAILABILITY, EGYPT WAS FORCED INCREASE USE OF SHORT-TERM CREDIT, MAINLY EXTERNAL BANK FACILITIES, BEYOND LEVELS ORIGINALLY CONTEMPLATED. WE ARE HOWEVER AWARE THAT IMPROVEMENTS ARE URGENTLY REQUIRED IN MANAGEMENT OF EXTERNAL RESOURCES AND EXTERNAL DEBT. WE ARE TIGHTENING UP PROCEDURE FOR FORMULATING FOREIGN EXCHANGE BUDGET, WHICH IS IMPORTANT TOOL FOR SHORT-TERM MANAGEMENT OF OUR FOREIGN EXCHANGE RESOURCES. ACCORDINGLY, SCEPP WILL REVIEW FOREIGN EXCHANGE BUDGET MONTHLY, AND WILL ALSO CLOSELY EXAMINE PROJECTIONS OF EXPECTED MONTHLY CHANGES IN SHORT-TERM DEBT AND BANKING FACILITIES, IN ORDER DETERMINE PRIORITIES IN EXPENDITURE PROGRAM, BOTH ON CAPITAL AND CURRENT ACCOUNTS.

7. GOVERNMENT IS AWARE OF PROBLEMS INHERENT IN EXCESSIVE USE OF BANKING FACILITIES AND HAS THEREFORE IMPOSED A CEILING ON THEIR USE BY RESTRICTING AMOUNT OF NEW LETTERS OF CREDIT OPENED TO AMOUNT OF REPAYMENTS ON OUTSTANDING FACILITIES. IN ADDITION, WE ARE MAKING SERIOUS EFFORT SECURE SUBSTANTIAL REFINANCING OF EXISTING BANKING FACILITIES THROUGH A MEDIUM-TERM LOAN FROM FRIENDLY COUNTRIES. NEGOTIATIONS FOR OBTAINING SUCH REFINANCING ARE ALREADY UNDER WAY.

8. IN ORDER IMPROVE MANAGEMENT OF EGYPT'S EXTERNAL DEBT, WE ARE SETTING UP EXTERNAL DEBT MANAGEMENT UNIT WITHIN NEXT THREE MONTHS FOR CENTRALIZATION OF AVAILABLE INFORMATION ON COUNTRY'S EXTERNAL DEBT. UNIT WILL ALSO PREPARE ANALYSIS OF IMPLICATIONS OF DIFFERENT EXTERNAL DEBT MANAGEMENT STRATEGIES AS BASIS FOR DECISIONS BY GOVERNMENT IN MONTHLY MEETINGS OF SCEPP.

9. AS PART OF OUR LIBERALIZATION POLICY, AND IN ORDER STIMULATE EXPORTS AND STRENGTHEN BALANCE OF PAYMENTS, WE HAVE INSTITUTED A PARALLEL MARKET FOR FOREIGN EXCHANGE OPERATIONS. WE HAVE ALSO LIBERALIZED IMPORT PROCEDURES THROUGH CREATION OF "OWN EXCHANGE

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IMPORT" SCHEME. IMPORTS BOTH THROUGH PARALLEL MARKET AND OWN EXCHANGE SCHEME HAVE GROWN CONSIDERABLY DURING YEAR THUS INCREASING AVAILABILITY OF INTERMEDIATE GOODS AND INDUSTRIAL RAW MATERIALS. GOVERNMENT FULLY REALIZES THAT INCREASED OPERATIONS OF "OWN EXCHANGE IMPORTS" SCHEME HAS HAD A NEGATIVE EFFECT ON GROWTH OF PARALLEL MARKET RESOURCES. TO FURTHER STRENGTHEN PARALLEL MARKET WE PROPOSE IMPLEMENT NUMBER OF MEASURES BY END OF YEAR, INCLUDING MORE FREQUENT REVISIONS OF PARALLEL MARKET EXCHANGE RATE. MOREOVER, AS LIQUIDITY POSITION IMPROVES, WE INTEND MAKE SUBSTANTIAL ALLOCATIONS TO PARALLEL MARKET FROM OFFICIAL EXCHANGE RECEIPTS. WE HOPE TO GRADUALLY WIDEN IMPORTS THROUGH PARALLEL MARKET AND OWN EXCHANGE IMPORT SCHEME FROM PERCENT LEVEL OF ABOUT 10 PERCENT OF TOTAL IMPORTS TO ABOUT DOUBLE THAT PERCENTAGE BY THE END OF 1975 AND FOR ALL IMPORTS EXCEPT BASIC GOODS BY END OF 1977.

NOTE: EXDIS CAPTION ADDED PER CAIRO 5614.

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ACTION SS-15

INFO OCT-01 NEA-10 ISO-00 SSO-00 /026 W
----- 058996

R 051131Z JUN 75
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 4368
INFO AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY TEHRAN

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FOR UNDERSECRETARY ROBINSON

10. GOVERNMENT IS ALSO AWARE THAT THERE IS SOME AMBIGUITY IN PROVISIONS OF FOREIGN INVESTMENT LAW REGARDING RATE OF EXCHANGE WHICH APPLIES FOR REPATRIATION OF CAPITAL, PROFITS, AND DIVIDENDS. THIS HAS SLOWED DOWN IMPLEMENTATION OF APPROVED FOREIGN INVESTMENT PROJECTS. WE ARE AWARE THAT 1975 BANK ECONOMIC MISSION BELIEVES THAT CAPITAL INFLOWS AND OUTFLOW UNDER FOREIGN INVESTMENT LAW FOR INDUSTRIAL INVESTMENT SHOULD PASS THROUGH PARALLEL MARKET. THE GOVERNMENT IS AT PRESENT STUDYING THE ISSUES INVOLVED AND WILL MAKE ITS POSITION CLEAR SHORTLY IN ORDER REMOVE OBSTACLES THAT MAY STAND IN WAY OF PROMOTING FOREIGN INVESTMENT.

11. OUR IMMEDIATE CONCERN HAS BEEN WITH COUNTRY'S EXTERNAL POSITION. BUT WE ARE ALSO KEENLY AWARE OF IMPORTANCE OF IMPROVEMENTS IN MOBILIZATION OF DOMESTIC RESOURCES. ON REVENUE SIDE, WE PROPOSE ENACT UNIFIED INCOME TAX LAW; MODERNIZED AND SIMPLIFIED CUSTOMS LAW; REFORM SALES TAX; AND INCREASE INHERITANCE AND STAMP TAXES. WE EXPECT ALL THESE CHANGES TO BE PRESENTED TO NATIONAL ASSEMBLY BEFORE END OF YEAR. THESE MEASURES, COMBINED WITH IMPROVEMENT IN TAX ADMINISTRATION SHOULD SIGNIFICANTLY IMPROVE OUR ABILITY MOBILIZE DOMESTIC RESOURCES.

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12. WE ARE ALSO SERIOUSLY CONCERNED WITH IMPROVEMENTS IN EFFICIENCY OF PUBLIC SECTOR ENTERPRISES. MEASURES ALREADY TAKEN INCLUDE PROMULGATION OF SUITABLE LEGISLATION IN ORDER DECENTRALIZE OPERATIONS OF CERTAIN PUBLIC SECTOR ENTERPRISES. AMONG MEASURES THAT WE PROPOSED TO INSTITUTE THIS YEAR IS GRADUAL CLOSING DOWN OF ENTERPRISES THAT ARE NOT ECONOMICALLY VIABLE, AFTER CAREFUL EVALUATION OF THEIR PERFORMANCE THAT IS CURRENTLY BEING UNDERTAKEN. OTHER MEASURES BEING UNDERTAKEN IN HOPE OF INCREASING EFFICIENCY INCLUDE GREATER DECENTRALIZATION OF MANAGEMENT DECISION-MAKING WITHIN ENTERPRISES AND SALE OF SHARES WITHIN PUBLIC SECTOR ENTERPRISES TO PRIVATE SECTOR.

13. IN ORDER FURTHER IMPROVE OPERATIONS OF BANKING SYSTEM WE WILL INTRODUCE LEGISLATION TO STRENGTHEN ROLE OF CENTRAL BANK IN CONTROLLING DOMESTIC CREDIT; AND RELAX CEILING ON INTEREST RATE. WE HAVE ALREADY PASSED LEGISLATION TO INCREASE COMPETITION BETWEEN COMMERCIAL BANKS BY PERMITTING THEM TO OPERATE IN ALL SECTORS AND ENGAGE IN ALL KINDS OF BANKING ACTIVITIES. IN ADDITION AS AN ESSENTIAL MEASURE TO CONTROL PRICE RISES, EVERY EFFORT WILL BE MADE TO LIMIT GOVERNMENT BORROWING FROM CENTRAL BANK. THIS WILL ALSO BE REVIEWED REGULARLY BY SCEPP.

14. WIDENING OF PARALLEL MARKET AND IMPROVEMENT OF EFFICIENCY OF PUBLIC SECTOR ENTERPRISES SHOULD HELP REDUCE DISTORTIONS IN RELATIVE PRICES WHICH EXIST IN ECONOMY. AS YOU ARE AWARE, AS A RESULT OF LOW LEVEL OF INCOMES GENERALLY PREVALENT IN EGYPT, IT HAS BEEN POLICY MAINTAIN REASONABLE PRICE LEVELS FOR BASIC ITEMS OF MASS CONSUMPTION. THIS HAS ALSO BEEN INFLUENCED BY A DESIRE AVOID VICIOUS WAGE/PRICE SPIRAL. BURDEN OF SUBSIDIZATION HAS INCREASED CONSIDERABLY IN 1974 AS RESULT RISING WORLD PRICES. WE WOULD, HOWEVER, HOPE OVER TIME, AS INTERNATIONAL PRICES RESUME MORE NORMAL LEVELS AND AS AGRICULTURAL PRODUCTIVITY INCREASES, TO LESSEN VOLUME OF THESE SUBSIDIES. IN INTERIM, WE ARE STUDYING DISTRIBUTION OF THE BENEFITS OF SUBSIDIES IN ORDER TO MAKE THEM MORE SELECTIVE, AND WILL EXTEND TO OTHER ESSENTIAL COMMODITIES AND TO UTILITY RATES DUAL PRICING SYSTEM WHICH IS AT PRESENT APPLIED TO DOMESTIC SALES OF TEA AND SUGAR SO AS TO BRING ABOUT A NET REDUCTION IN THEIR LEVELS IN 1976. TAX

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AND LICENSING MEASURES WILL BE TAKEN TO RESTRAIN CONSUMPTION OF PETROLEUM PRODUCTS BY PRIVATE CARS TO ENSURE THAT

BENEFITS OF SUBSIDIZED PETROLEUM PRODUCTS ACCRUE TO PUBLIC TRANSPORT ON WHICH LIMITED INCOME GROUPS DEPEND. GOVERNMENT IS ALSO CONDUCTING STUDIES TO EXAMINE ENTIRE SPECTRUM OF IMPLICIT SUBSIDIES THAT EXIST IN ECONOMY AS A RESULT OF PRICE CONTROLS AND OTHER GOVERNMENT REGULATIONS, WITH A VIEW TO THEIR ULTIMATE RATIONALIZATION.

15. PREPARATION OF FIVE-YEAR PLAN (1976-80) HAS PROGRESSED CONSIDERABLY. SECTORAL PLANS ARE BEING SUBMITTED AND REVIEWED AND CONSISTENCY TESTS ARE BEING UNDERTAKEN. GOVERNMENT INTENDS TO PREPARE A FIVE-YEAR PLAN FRAMEWORK WITHIN WHICH ANNUAL PLAN FOR 1976 WILL BE FORMULATED BY NOVEMBER, 1975. IN 1976 INDICATIVE PLAN WILL BE FURTHER REFINED TO REFLECT PRIORITIES AND TRENDS OF DEVELOPMENT, WITHIN FRAMEWORK OF LONG-TERM PERSPECTIVES. GOE IN CONTEXT OF MORE FREQUENT CONSULTATIONS WITH BANK (REFERRED TO BELOW) WOULD, DURING COURSE OF THIS YEAR, BE PREPARED TO DISCUSS MACRO-ECONOMIC FRAMEWORK AND OVERALL SECTORAL TARGETS IMPLICIT IN INDICATIVE FIVE-YEAR PLAN.

16. DURING MY MEETINGS WITH MISSION I HAD SUGGESTED THAT YOUR STAFF SHOULD REVIEW EGYPT'S ECONOMIC SITUATION, PERHAPS ON A MORE INFORMAL BASIS, TWO OR THREE TIMES A YEAR, IN ADDITION TO MORE FORMAL ANNUAL REVIEW. I AM PLEASED THAT MR. BEN JENK HAS ACCEPTED THIS SUGGESTION. I ALSO APPRECIATE BANK'S OFFER OF TECHNICAL ASSISTANCE IN CARRYING OUT OUR STUDIES. WITH BEST WISHES, END TEXT.
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